



Energy Future System Operator

Response form

The consultation is available at: <https://www.gov.uk/government/consultations/proposals-for-a-future-system-operator-role>

The closing date for responses is 28th September 2021

Please return completed forms to:

System Operator Team
Department for Business, Energy and Industrial Strategy
Abbey 1, 3rd Floor,
1 Victoria Street
London
SW1H 0ET

AND

Future System Operation
Office of Gas and Electricity Markets
10, South Colonnade
Canary Wharf London
E14 4PU

Email: futuresystemoperator@beis.gov.uk

Personal / Confidential information

Please be aware that we intend to publish a summary of all responses to this consultation.

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Ofgem will publish non-confidential responses (or parts of response) on its website. If you want your response in whole or in part to be considered confidential, please tell us in your response and say why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Please be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our privacy policy.

All responses will be processed by BEIS and Ofgem as this is a joint consultation.

We will summarise all responses and publish this summary on GOV.UK. The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

I want my response to be treated as confidential ☐

Comments: [Click here to enter text.](#)

About You

Name: Paul Youngman
Organisation (if applicable): Drax Group PLC
Address: Drax Power Station, Selby, North Yorkshire
YO8 8PH

	Respondent type
<input type="checkbox"/>	Business representative organisation/trade body
<input type="checkbox"/>	Central government
<input type="checkbox"/>	Charity or social enterprise
<input type="checkbox"/>	Individual
<input checked="" type="checkbox"/>	Large business (over 250 staff)
<input type="checkbox"/>	Legal representative
<input type="checkbox"/>	Local government
<input type="checkbox"/>	Medium business (50 to 250 staff)
<input type="checkbox"/>	Micro business (up to 9 staff)
<input type="checkbox"/>	Small business (10 to 49 staff)
<input type="checkbox"/>	Trade union or staff association
<input type="checkbox"/>	Other (please describe)

Questions

Chapter 2

Questions in this section relate to

- The case for change

Question 1

Do you agree that net zero will create the need for new technical roles in the electricity and gas systems, and require a new approach to for energy system governance?

A ☒ **Yes** ☐ **No**

B

If not please explain why:

We partially agree and partially disagree with the statement.

We agree that there is a case that net zero will require electricity system operation to evolve rapidly. We also agree that aspects of strategic long-term gas forecasting, and strategic insight as to how the energy market is evolving, may be required in the future. However, we do not believe there is currently a compelling case that net zero creates the need for any different technical requirements or competency across the gas and electricity systems.

We do agree that to achieve net-zero significant changes are likely to be required across electricity networks and operation where the integration of heat and transport will be a significant challenge. In this respect we can see a clear case for a Future System Operator (FSO) to operate across electricity transmission and distribution networks. However, from the consultation it is not clear which gas operational or planning related technical capability or competency needs to be addressed by a FSO either now or as energy networks continue to evolve.

Notwithstanding that, we do agree that a new approach to energy system governance is required. We note that there is some crossover between the role and functions described in this consultation and the parallel consultation on Energy Industry Code Reform. Our preference would be that the FSO would not continue with the Electricity System Operator's (ESO's) current Code Manager responsibilities. The FSO will be an integral and vital stakeholder for all relevant energy industry codes, but they must be an independent and unconflicted stakeholder with neither Code Manager nor integrated Rule Making Body (IRMB) responsibilities.

Question 2

Do you agree that the establishment of a Future System Operator is needed to fulfil the kinds of technical roles needed to drive net zero?

A ☒ **Yes** ☐ **No**

B

If not please explain why:

We agree that a truly independent FSO with responsibility across electricity system operation for distribution and transmission networks could be beneficial. We believe this could drive the achievement of net zero at minimum cost for all, while maintaining the safe and secure operation of the electricity system.

Question 3

Do you agree that a Future System Operator should have roles in both the electricity and gas systems?

A ☐ **Yes** ☒ **No**

B

If not please explain why:

We agree that there may be some logic in bringing together gas and electricity system operator functions in the future but do not believe the case has been irrefutably made in this consultation.

From a net zero perspective, we believe it is a higher priority and more beneficial to secure the independence of the ESO and progress its transition to the FSO. It would also be worthwhile considering the longer-term role for the FSO and whether or not its role and scope should be extended on a phased basis to encompass the system operation of electricity distribution networks as well as the electricity transmission network. This could better enable an integrated approach to system operation and planning across the electricity sector – a whole system

approach. In parallel, a fuller assessment can be made of the benefits of integrating any gas system operator roles and responsibilities into the FSO.

Question 4

Do you agree that a Future System Operator should be entirely separate from National Grid plc?

A

☒ **Yes**

☐ **No**

B

If not please explain why:

Yes, we see no credible reason why the ESO or a FSO should be part of National Grid PLC.

We recognise that there will need to be a transition to the new organisation. However, given the extensive work and consultation to enact the previous partial separation of system operator functions from National Grid, we would anticipate that the steps needed to achieve complete separation should be fairly straightforward.

Question 5

What issues are there with existing institutional arrangements in the UK energy system in relation to system-wide decision-making and planning?

Please provide your answer below:

If the legally binding 2050 net zero target is to be met then a step change needs to occur in coordination and decision making across government at a local and national level, and with other institutions including relevant regulatory bodies. Decision making particularly by Government and Ofgem needs to be swifter and consistent, with a focus on developing longer term solutions and markets that support net zero outcomes. The government's position on net zero is positive but we believe more clarity and direction around the pathway to decarbonisation is needed. Clear policy from government and clarity over what actions are to be taken by when, and by whom, could improve investor confidence and accelerate meeting the UK net zero commitment.

We welcome the development of the FSO, and it has been our long-held position that the Electricity System Operator should be completely separate from the wider interests of National Grid as a Network Owner and investor in Interconnectors. In our response to the consultation on Energy Industry Codes we have argued that neither National Grid nor the FSO should undertake Code Manager functions. It is our view that code managers should be appointed by Ofgem and be independent organisations focussed on delivering the strategic priorities of Ofgem and industry.

Question 6

What examples/case studies are you aware of where net zero delivery in one part of the energy system did not adequately account for cross-system impacts or costs?

Please provide your answer below:

It's too early to tell given the relatively new concept of net zero. Although there are several examples of 'delivery' that have either not considered or not mitigated the wider and longer-term impact, e.g. capacity constraints exacerbated by building generation a long distance from demand, the extensive investment in intermittent generation without complementary consideration to security of supply (such as dispatchable generation or storage), and the original inclusion of high carbon emitters in the Capacity Market.

Question 7

Where should government focus in our efforts to improve systems thinking and coordination across the energy system?

Please provide your answer below:

We have no specific recommendations currently.

Chapter 3

Questions in this section relate to

- What existing, enhanced and new roles and functions we consider a Future System Operator is well placed to take on to drive the transition to net zero.

Question 8

Do you agree that the FSO should undertake all the existing roles and functions of NGESO?

A

☐ Yes

☒ No

B

If not please explain why:

We do not believe the FSO should be either a code manager or integrated rule making body. Apart from those roles we agree that the scope of the FSO should include all the roles and functions currently undertaken by the ESO.

Question 9

Do you agree there is a case for the FSO to undertake the gas strategic functions outlined in Option 1?

A

☐ Yes

☒ No

B

If not please explain why:

We are not convinced that there is a sufficient case for the FSO to undertake the gas strategic functions outlined in option one. We would see a higher priority being the consideration of developing the electricity DSO capability within the FSO as that may help guide the evolution of the whole electricity system. Optimisation of distribution network capacity, enabling flexibility through flexibility contracts and developing associated markets could be highly relevant and worthwhile functions for the FSO.

There are also interactions as to the role of the existing distribution network and the glidepath to decarbonisation of these networks that will require consideration. Before consulting on this

option, and taking any resulting action, we would recommend a rigorous cost:benefit assessment be conducted.

On the specific elements of option one:

Strategic network planning

As highlighted above we do not see a benefit currently in the FSO undertaking the gas strategic network planning. Were the FSO to undertake an enhanced gas role then there may be more merit in taking a whole system approach and incorporating Gas System Operation within the function. The strategic planning and system operator functions related to gas transmission are highly dependent and informative of each other.

Long term Forecasting and Market Strategy functions

We do agree there may be some merit in the FSO considering the strategic aspects (10 years plus) of long-term forecasting and market strategy for gas within its scope and function. This would make particular sense if the FSO also has similar responsibilities for projecting CCUS development and Hydrogen usage and the contribution these will make to achieving net zero.

Network Emergency Co-ordinator

The Network Emergency Co-ordinator (NEC) is a highly specific role that is solely focussed on protecting public safety whilst ensuring that actions required to manage a gas supply emergency are mobilised and executed across gas networks in a timely and coordinated manner. Our view is that whatever the evolution of the gas networks in the future the NEC should remain an obligation upon the Transmission Owner (TO). The TO's duty and obligation to support and fund Gas Supply Emergency activities should not be reduced. Therefore the TO should continue to appoint a suitably qualified, competent and independent NEC, and provide the resources to undertake the NEC support functions including preparation and alteration of the NEC safety case and emergency exercises.

Question 10

Do you agree that there is not currently a case for the FSO to undertake all GSO roles and functions, including real time gas system operation, as outlined in Option 2?

A

☒ **Yes**

☐ **No**

B

If not please explain why:

We believe there is a more compelling case for a fully independent FSO focussed on whole electricity system operation, rather than a strong case for either option relating to gas.

Chapter 3- New and enhanced FSO roles

Questions in this section relate to

- 3.2 in the FSO Consultation

Question 11

Do you have views on the proposal for an advisory role? What organisations do you consider would benefit from the provision of advice by the FSO?

Please provide your answer below

We agree that there is a need for government and regulators to receive independent advice as to the evolution of the energy system and this is a role that an independent FSO should provide. We agree that the FSO should be able to provide independent advice on the whole energy sector including the evolution of natural gas, hydrogen and CCUS adoption over the longer term as it develops competency in long-term forecasting and assessing market developments in those areas.

Who should bear the costs of providing that advice?

We believe the FSO should charge the relevant body requesting bespoke advice for the advice it gives.

Question 12

Do you have any views on the other areas where we are considering new and enhanced roles and functions for the FSO (outlined in section 3.2)?

Please elaborate:

Our view is that the FSO should be fully independent of National Grid and initially undertake the roles of the ESO. It could then build capability in order to become responsible for electricity distribution system operation. We believe there is some merit in the FSO developing a strategic long-term forecasting and market development capability across the whole energy system. In principal we are supportive of additional energy roles (gas system operation, network planning of natural gas and hydrogen networks, etc.) being transferred to the FSO in the long-term, subject to a clear needs case and further consultation.

We offer the following views on the specific elements listed in section 3.2:

Dispute resolution

We do not see dispute resolution as a role the FSO should be responsible for. The regulator should be responsible for dispute resolution.

System Planning and Network development

We believe the priority for the FSO should be electricity transmission, with additional responsibility to coordinate with electricity DNO's. In principal we agree over the longer term these responsibilities could be expanded to cover the whole energy system but this is currently not required.

Driving competition in energy networks

We agree that the role of the FSO should be to provide impartial information to Ofgem to inform Ofgem's decision making when tendering for onshore or offshore networks.

Energy market Design / Co-ordination with distribution networks

We believe that the arrangements and duties related to the Capacity Market should remain broadly unchanged.

There could be benefits from planning and starting to build capability for integration of DSO functions within the FSO in future. And in the near-term, a greater role for the FSO in coordinating activity across distribution networks could provide additional focus and support delivery of the open networks project.

Heat and transport decarbonisation

We agree the FSO may be the natural choice in the future to undertake this role but this consultation does not provide enough information to be able to determine this.

Data

We would expect the FSO as an independent body to be transparent and make data available to market participants.

Future system operability Energy standards and energy code development

The FSO should not be a code manager or IRMB. The FSO should be a key independent stakeholder focussed on its critical remit and should not be distracted by managing industry codes. We believe industry code management should be conducted by a separate independent entity with relevant expertise.

CCUS and Hydrogen

In the short-term the role of the FSO relating to CCUS and Hydrogen should be focussed on the interplay with the FSO's strategic forecasting and general market development activity. In principle we agree that the role of the FSO could be expanded and developed over time.

Chapter 4

Questions in this section relate to

Organisation Design

- The high-level characteristics and detailed attributes which we consider are needed to achieve this, and seeks views on two different organisational models and the extent to which they meet these characteristics and attributes.

Question 13

What are your views on our proposed characteristics and attributes of a future system operator and how the models presented would deliver against them?

Please provide your answer below

We agree with the characteristics and attributes outlined in the consultation.

Are there other characteristics or attribute that we have not yet considered?

No comment.

Question 14

Are we considering the right organisation models for the FSO? And why?

Please provide your answer below

Either ownership model could be appropriate for the FSO.

Question 15

Are we considering the right elements for the FSO's regulatory and accountability frameworks? And why?

Please provide your answer below

No comment.

Question 16

Do you have views on the level of shareholding or control involving other 'energy interests' and the FSO at which a conflict of interest would become a concern?

Please provide your answer below

No comment.

Question 17

Are we considering the right implications of our proposals for Elexon and Xoserve?

Please provide your answer below

Yes. We do not believe there will be significant implications for either organisation. Maintaining, or even bolstering, their independence in certain circumstances, is paramount. If the FSO model includes gas system operation functions or wider gas responsibility, such as the NEC, then there could be some wider implications for Xoserve.

Chapter 5

Questions in this section relate to

Implementation

- A preferred high-level approach for implementation of the FSO with the aim of seeking views on how the FSO can best implemented in practice

Question 18

What is your view on the preferred implementation approach?

Please explain why

We agree that a phased approach to implementation is appropriate, and highlight our preference that the transition of wider electricity responsibilities be started, wherever possible, in parallel to the legislative process. We would also welcome expediting the transfer of code administration responsibilities currently undertaken by the ESO to other code administrators.

Question 19

Based on the areas where we are considering new and enhanced roles and functions for the FSO, which of these should be prioritised for development?

Please explain why

The extension of the existing ESO competency for Long-term Forecasting and Market Strategy functions could be prioritised. We also think priority could be given to assessing the future benefits of system operation across electricity transmission and distribution networks. We also think that transferring the ESO code administration responsibilities to a focussed code administrator would be an important step forward in preparing the ground for the FSO.

Question 20

What do you believe are the risks to implementation?

Please provide your answer below

No comment.

How can these be mitigated?

No comment.

Question 21

Do you have any comments on potential implications of implementation for you, your organisation, or other stakeholders?

Please provide your answer below

We are supportive of this change and will need to adjust our existing contracts and operations over time to ensure that we are appropriately aligned with the FSO.

Chapter 6

Questions in this section relate to

Impact assessment

- FSO Impact assessment which is presented alongside this consultation to assess the likely costs, benefits and distributional impacts of the policy options considered

Question 22

What is your view on the position there are likely to be cost savings across the energy system from an increased “whole system” view, as described in paragraphs 50-55 of the IA?

A

Please provide your answer below

We broadly agree with the assessment that has been undertaken and note that option one, which has not been included in the consultation, mirrors some of the benefits of option two and three but does not have the accompanying benefit of independence.

We note that option three does not recognise any benefit from operating both the electricity and gas operations. Although we are not supportive generally of this option, we would expect there to be incremental benefits from operating both systems in the medium to longer-term. For instance, by ensuring that actions taken to balance the respective networks on either system deliver the

best value for customers in terms of cost and achieving a net zero outcome, especially in a world of extensive Hydrogen use and/or the electrification of heat.

We also believe the cost related to losing operational efficiency also appears overstated. We are not clear what operational actions the GTO Network owners would not take given that the network is operated from the Gas National Control Centre. In fact, there may be a merit in appropriately pricing these operational actions. For instance, it may be more cost effective to reduce gas generation or demand across a gas distribution network than to run additional gas compression.

B

If so, is the potential magnitude of savings illustrated fairly in the IA?

We agree that the IA gives a reasonable demonstration of the rough order of magnitude of the costs and benefits

C

If not, why not?

No Comment.

Question 23

What is your view on the conclusion that policy intervention is likely to increase the benefits of onshore electricity network competition, as described in paragraphs 53-59 of the IA? If you agree, is the potential magnitude of savings illustrated fairly in the IA? If not, why not?

A

Please provide your answer below

We agree that the IA gives a reasonable demonstration of the potential benefits for onshore electricity network competition.

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B

If not, why not?

No comment.

Question 24

Do you think that the impact assessment has identified and considered the key costs and benefits of policy intervention?

A

☒ **Yes**

☐ **No**

B

If not, can you provide details on other impacts that have not been considered?

No comment.

Question 25

Do you think that the distribution of impacts is fairly represented, with impacted groups correctly identified? Outlined in table 5 of the IA.

A

☒ **Yes**

☐ **No**

B

If not, why not?

No comment.

Question 26

We invite respondents' views on whether the proposals for energy system governance reform may have a different impact on people who have a protected characteristic (age, disability, gender re-assignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex (gender) or sexual orientation), in different ways from people who don't have that characteristic.

Please provide any evidence that may be useful to assist with our analysis of policy impacts.

No comment.

Do you have any other comments that might aid the consultation process as a whole?

Please use this space for any general comments that you may have, comments on the layout of this consultation would also be welcomed.

No comment.

Thank you for your views on this consultation.

Thank you for taking the time to let us have your views. We do not intend to acknowledge receipt of individual responses unless you tick the box below.

Please acknowledge this reply ☒

At BEIS we carry out our research on many different topics and consultations, and your views are valuable to us. Would you be happy for us to contact you again from time to time either for research or about other consultations?

☒ Yes

☐ No